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**Top Secret**

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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday September 28, 1976

CI NIDC 76-228C

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**NATIONAL SECURITY INFORMATION**

Unauthorized Disclosure Subject to Criminal Sanctions

State Dept. review completed

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National Intelligence Daily Cable for Tuesday September 28, 1976

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The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Situation Report

25X1 [ ] Lebanese President Sarkis is continuing to meet with leaders of every political stripe to probe their positions on a possible settlement, and perhaps sound them out on choices for prime minister.

25X1 [ ] A meeting scheduled for last Sunday between Sarkis and Palestine Liberation Organization chief Yasir Arafat was canceled after leftist leader Kamal Jumblatt was fired on as he left an earlier meeting with Sarkis, held near the line between the two sides.

25X1 [ ] Sarkis did talk with Christian extremist Camille Shamun yesterday, after which Shamun emphasized the necessity for a countrywide cease-fire followed "as quickly as possible" by total Palestinian withdrawal and implementation of the Cairo accords restricting fedayeen activity. Shamun's hard-line demands do not auger well for the success of Sarkis' negotiations.

25X1 [ ] Fatah has denied any connection with a terrorist group calling itself the "Black June Organization"--presumably a reference to Syria's intervention in Lebanon against the Palestinians in June--which attempted to take over a Damascus hotel on Sunday. The four-man group never had time to state its demands; one member was killed during the incident and the others executed yesterday. The leader seems to have been expelled from Fatah in 1974 and to have since led a radical fedayeen faction backed by Iraq.

25X1 [ ] Some [ ] in Beirut are speculating 25X1 that the Syrians televised an "admission" by the terrorists of being Fatah members as a prelude to a stepped-up military campaign against the Palestinians in Lebanon. The Syrians may well have plans to launch such an offensive there, but they are expected to hold back at least for a while to give Sarkis' negotiations a chance to bear fruit.

25X1 [ ] //The Lebanese ambassador to Iran told US embassy officials in Tehran that Lebanon's Shia Muslim community is completely alienated from the Palestinians because they treat the local population with arrogance and contempt, expropriate property, demand payoffs, and kill for real and imagined

slights. The Shias have apparently decided to oust the Palestinians, by force if necessary, and have discussed some form of military cooperation with Christian leaders Franjiyah and Shamun.//

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[REDACTED] //The ambassador also said that there is widespread disillusionment among both officers and enlisted men in the Lebanese Arab Army--the breakaway Muslim faction previously allied with the leftists--who have come to feel they have been fighting for no useful cause, and have begun to desert in growing numbers.//

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[REDACTED]

the reorientation of the Lebanese Arab Army may reflect the disorganization and low morale of the leftist and Palestinian forces--and the friction between them--as the war drags on and the initiative seems to remain in Christian and Syrian hands.

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[REDACTED] Sarkis has said that one of his first priorities will be the formation of an internal security force drawn from both Muslim and Christian ranks. A reorganized Lebanese Arab Army--especially one willing to cooperate with the Syrian-sponsored "Vanguards of the Lebanese Army"--might, in time, provide the nucleus of such a force.

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[REDACTED] More than 30 people were reportedly killed by indiscriminate shelling in west Beirut yesterday, and snipers were active elsewhere in the city. Artillery fire continued in several of the city's suburbs, including Shiyah and Ayn Rummanah. Although activity in the mountains east of Beirut was lower than usual, there was sporadic shelling there.

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[REDACTED] Moscow has for the first time made a gesture of support for Syria's position in Lebanon. *Pravda* yesterday carried a news report on President Asad's speech to his troops near the Israeli border. It included Asad's justification for the presence of Syrian troops in Lebanon as well as his specific criticism of the PLO role in Lebanon.

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[redacted] Such support will not please the PLO, which had already voiced misgivings about a September 8 *Pravda* "Observer" article that was critical of "leftist elements" of the Palestinian movement.

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[redacted] Moscow seems to be making an effort to acknowledge the realities of the Lebanese situation. A Soviet official in Cairo recently said the Soviets believed it was necessary for the Syrians to remain in Lebanon to guarantee any settlement.

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ANGOLA-USSR: Neto to Visit Moscow

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[redacted] Angolan President Neto will pay an official visit to the USSR early next month, according to an announcement from Moscow. The visit will be in response to a Soviet invitation issued last May, when Angolan Prime Minister Nascimento was in Moscow seeking additional Soviet assistance. The USSR, along with Cuba, remains Angola's principal source of aid.

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[redacted] From the Soviet standpoint, Neto's visit probably could not be better timed. It presents Soviet leaders with an opportunity to press their attack against the Rhodesian settlement plan announced last Friday by Rhodesian Prime Minister Smith.

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[redacted] Neto will probably be cautious, however, about associating himself with any Soviet criticism that could put him out of step with other front-line African presidents because he values his newly acquired status as a member of their group.

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[redacted] The visit could be offset somewhat by Angola's expected resumption of diplomatic ties with Portugal at about

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the same time. The Angolan and Portuguese foreign ministers are to meet in Cape Verde around October 1 to work out final arrangements. Neto is anxious to resume the ties to balance his foreign relations and broaden his sources of assistance.

POLAND: Sentences Suspended

The Polish Supreme Court yesterday suspended the sentences of seven workers imprisoned for disrupting international railroad traffic during the strike on June 25 protesting announced price increases.

In nullifying the three-to-five-year sentences, the court said "a sense of social justice has been satisfied." The suspension, which is unprecedented, was almost certainly ordered by the top party hierarchy.

This is only the latest effort by the insecure Gierek leadership to appease the Polish public and the Catholic Church. Since the June riots, the regime has twice withdrawn proposals for price increases out of fear of public reaction. In addition, the leaders have become increasingly forthright in describing Poland's economic plight and in informing the public about economic decisions.

The Polish people will view the suspension of the sentences as a conciliatory gesture by the government, but will also see it as another sign of their own power.

In addition to placating the Polish people, the regime was responding to pleas from the Polish episcopate and to demands of West European communist parties that the strikers be treated leniently.

JAPAN: MIG Deadline Extended

Japanese Prime Minister Miki has accepted the suggestion of Foreign Ministry and Defense Agency officials that the US be allowed additional time for direct examination of the Soviet MIG-25. Miki's revised deadline--extending direct US access to the aircraft through Sunday, October 3--is apparently firm.

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[REDACTED] Foreign Minister Kosaka will confirm Japan's commitment to return the aircraft to the Soviets during his meeting with Foreign Minister Gromyko at the UN today. Negotiations over the details of the transfer will be held in Tokyo.

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[REDACTED] Kosaka reportedly will avoid giving Gromyko a firm timetable for the return of the aircraft. Japanese defense officials calculate that it will take about two weeks to prepare the MIG for shipment, and, if the negotiations proceed rapidly, even the Japanese investigation of the aircraft will be curtailed.

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#### SPAIN: Political Activity

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[REDACTED] The likelihood that parliamentary elections will be held in Spain by June has led to increased political activity on all sides.



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[ ] The catalyst for much of the activity was the decision of former interior minister Fraga, considered a reformer under the Arias government, to try to establish himself as leader of the right. He has recently been meeting with prominent conservatives, most of them closely identified with the Franco regime. He does not seem, however, to have contacted ultrarightists who are pushing for a continuation of the Francoist system.

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[ ] According to press reports, the various conservative factions started work last Saturday on a manifesto to announce an alliance. The possibility of a rightist front has in turn apparently prompted Prime Minister Suarez to consider the formation of a new centrist grouping.

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[ ] Suarez and Deputy Prime Minister Osorio hope to draw on Suarez' own associates, reformist supporters of the present government, and some Christian Democratic groups, including supporters as well as opponents of the regime. Until now, Suarez has resisted forming a political party on the grounds it might prejudice his political reform program.

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[ ] The leftist Democratic Coordination continues to be beset by tensions. Socialist Workers Party representatives walked out of a meeting last week of the Coordination's executive committee. An important factor underlying the walkout is the Socialists' seeming willingness to participate in elections even if the Communists are excluded. The more radical members of the Coordination are urging that the opposition refuse to participate if the Communists are excluded.

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[ ] The government's proposed reforms have also affected the militant Basque Fatherland and Liberty terrorist organization. Representatives of the group told journalists in southwest France last week that they are abandoning the "struggle against the Franco regime," although they will "remain armed."

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[ ] The Basque militants will apparently create a "revolutionary and nationalist" political party. If the organization's leaders can bring the rank and file along, the group's new orientation should help halt Basque terrorist acts and aid the government's efforts to persuade Basques to participate in the reform process.

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UK: Pound at Record Low

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[REDACTED] //The British pound closed yesterday in London at \$1.68 and a cent lower in New York, a record low against the dollar. It fell nearly three cents from its close on Friday and has fallen over 5 percent since the Bank of England stopped intervening in support of sterling on September 9.//

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[REDACTED] //The latest decline came when even relatively small sales met little buying interest. A general uncertainty and lack of confidence in the British economy and current government policy have been worsened recently by a fear that the fringe benefits won by the British Seamen's Union would lead to demands by other unions for similar treatment. The Bank of England's apparent reluctance to continue to support the pound has compounded the problem.//

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[REDACTED] //The Bank stopped intervention in an attempt to preserve its remaining foreign exchange reserves and to avoid further drawing on its \$5.3-billion standby credit. Support operations through the first eight months of this year have cost the Bank an estimated \$5.5 billion. The Bank's current \$1-billion drawings against the standby credit become due in early december.

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USSR: Defense Spending Estimate

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[REDACTED] The Soviets' strong and continuing response to the sharply higher CIA estimate of Soviet defense spending, which was released publicly in May, contrasts with their low-key commentary on past US estimates.

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[REDACTED] The Soviets are conducting a major propaganda campaign calling the West solely responsible for the escalation of the arms race and asserting that Soviet military outlays are neither as large nor growing as rapidly as the US claims they are.

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[REDACTED] Since late May the Soviets have issued nine rebuttals to the new estimate. In the previous 10 years, they responded to US estimates on only three occasions--once in 1966 and twice in 1973.

25X1 [ ] The current Soviet press reaction has been based on explanations--more sophisticated than previous ones--of how the West "distorts" the level and trend of Soviet defense spending. The Soviets argue that:

--Differences in the structure of the US and Soviet economic systems preclude comparison of the shares of gross national product allocated to defense, and any attempt to do so results in understating the US defense burden.

--Western intelligence agencies have revised their estimates to reflect the wishes of the military-industrial complex.

--There are Western critics of the military-industrial complex who recognize the biased nature of the estimates.

25X1 [ ] The Soviets may be reacting as much to the extent of Western media coverage of the estimate as to the size of it--  
25X1 at 50 million rubles, nearly double last year's estimate. [ ]

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ARGENTINA: The First Six Months

25X1 [ ] Argentine President Videla and Economy Minister Martinez de Hoz, in recent major speeches, have offered an optimistic assessment of the military junta's six months in power. Their comments probably were directed as much to critics within the armed forces as to the public.

25X1 [ ] Videla highlighted the army's accomplishments against leftist guerrillas, but stopped short of claiming victory. He stressed that the guerrillas' operational capacity has been broken and that the "organizations have been beheaded, with much of their logistic and propaganda apparatus destroyed."

25X1 [ ] Further terrorist violence seems assured, however, and could make a mockery of Videla's statements, contributing to growing public cynicism. Moreover, opposition to Videla from conservative, security-minded military men could increase if such officers interpret his remarks as an indication that the government will give less attention to antiguerrilla operations.

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[ ] Martinez de Hoz was on somewhat firmer ground with his assessment of the economy. Inflation is down dramatically from the runaway levels it reached early this year, and considerable foreign financial assistance has been forthcoming. The economy minister asserted that the worst part of the recession is over, but warned Argentines not to be lulled into thinking they can abandon austerity measures.

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[ ] //The junta clearly still backs the minister's orthodox economic policies, but there is serious criticism, from both the public and the military. Recent, widespread work stoppages are an obvious sign that labor is tiring of wage limits in the face of continued high prices. Pressure within the military is reportedly mounting for the government to allow greater wage hikes before labor is irretrievably alienated.// [ ]

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